

CITY OF ALGONAC
St. Clair County, Michigan
AUDITED FINANCIAL STATEMENTS
For The Year Ended June 30, 2007

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of Algonac	County St Clair
Fiscal Year End 06/30/2007	Opinion Date 10/26/2007	Date Audit Report Submitted to State 11/30/2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

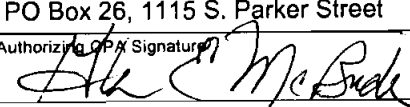
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	SAS 112 letter	
Certified Public Accountant (Firm Name) McBride, Manley & Miiller P.C.		Telephone Number (810) 765-4095	
Street Address PO Box 26, 1115 S. Parker Street		City Marine City	State MI
Zip 48039		License Number 1101008018	
Authorizing CPA Signature 		Printed Name Glen E. McBride, CPA	

CITY OF ALGONAC

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CITY OF ALGONAC

Management's Discussion and Analysis

June 30, 2007

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements.

The City as a Whole

The City combined net assets increased 0.5% from a year ago from \$15.32 million to \$15.39 million. As we look at the governmental activities separately from the business-type activities, we can see that the governmental activities experienced a decrease of approximately \$43,000 during the year (0.9% decrease). This was the result of expenses exceeding revenues during the fiscal year. The business-type activities experienced a \$113,000 increase in net assets, primarily as a result of a reduction in long-term debt. In a condensed format, the table below shows a comparison of the net assets (in thousands of dollars) as of the current date to the prior year:

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Current Assets	\$ 2,229	\$ 2,268	\$ 2,090	\$ 2,186	\$ 4,319	\$ 4,329
Noncurrent Assets	3,128	3,055	11,747	11,853	14,875	14,908
Total Assets	5,357	5,323	13,837	14,039	19,194	19,237
Long-Term Debt Outstanding	105	110	3,097	3,314	3,202	3,424
Other Liabilities	227	145	375	473	602	493
Total Liabilities	332	255	3,472	3,787	3,804	3,917
Net Assets						
Invested in Capital Assets - Net of Debt	3,091	3,021	8,457	8,353	11,548	11,374
Restricted	861	240	771	856	1,632	1,096
Unrestricted	1,073	1,807	1,137	1,043	2,210	2,850
Total Net Assets	\$ 5,025	\$ 5,068	\$ 10,365	\$ 10,252	\$ 15,390	\$ 15,320

Unrestricted net assets, the part of net assets that can be used to finance day to day operations, decreased by \$734,000 for the governmental activities. This represents a decrease of approximately 41%. The current level of unrestricted net assets for our governmental activities stands at \$1.07 million, or about 34.6% of expenditures. This is within the targeted range set by the City during its last budget process. The significant decrease in unrestricted net assets is explained by a reclassification of \$645,000 in Street Fund net assets from unrestricted net assets to restricted, and a \$70,000 increase in capital assets.

CITY OF ALGONAC

Management's Discussion and Analysis

June 30, 2007

The following table shows the changes of the net assets (in thousands of dollars) as of the current date to the prior year:

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Program Revenues						
Charges for Services	\$ 548	\$ 612	\$ 1,480	\$ 1,547	\$ 2,028	\$ 2,159
Operating Grants and Contributions	324	362	--	--	324	362
Capital Grants and Contributions	56	--	--	--	56	--
General Revenues						
Property Taxes and Payments in Lieu of Taxes	1,555	1,495	167	160	1,722	1,655
State-Shared Revenues	423	436	--	--	423	436
Unrestricted Investment Earnings	126	92	57	52	183	144
Gain/Loss on Sale of Assets	8	(15)	--	--	8	(15)
Transfers	--	(70)	--	(25)	--	(95)
Other	21	18	--	--	21	18
Total Revenues	3,061	2,930	1,704	1,734	4,765	4,664
Program Expenses						
Legislative	18	20	--	--	18	20
General Government	550	517	--	--	550	517
Public Safety	1,214	1,129	--	--	1,214	1,129
Highways and Streets	225	124	--	--	225	124
Public Works	655	597	--	--	655	597
Planning and Economic Development	11	6	--	--	11	6
Recreation and Cultural	271	273	--	--	271	273
Other	160	112	--	--	160	112
Water and Sewer	--	--	1,591	1,588	1,591	1,588
Total Expenses	3,104	2,778	1,591	1,588	4,695	4,366
Change in Net Assets	(43)	152	113	146	70	298
Prior Period Adjustment to Net Assets	--	--	--	449	--	449
Change in Net Assets	\$ (43)	\$ 152	\$ 113	\$ 595	\$ 70	\$ 747

The City's net assets continue to remain healthy. Net assets grew by \$70,000. This was primarily because of increases in Net Assets of Business-Type Activities.

Governmental Activities

The City's total governmental revenues increased by approximately \$131,000, primarily due to increases in property tax collections and a capital grant to fund a new playscape. Expenses of the governmental activities increased by \$326,000 over those of the previous year, primarily due to the Riverfront Park electric upgrade, the purchase of a new playscape, and the resurfacing of St. Clair Blvd.

CITY OF ALGONAC

Management's Discussion and Analysis

June 30, 2007

Business-Type Activities

The City's business-type activities consist of the Water and Sewer Funds. We provide water and sewer treatment to all City residents. We experienced a decrease in our net operating loss. This was primarily due to a decrease in administrative charges and wages and an increase in user charges without a rate increase.

The City's Funds

Our analysis of the City's major funds begins on page 5, following the entity-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The City's major funds include the General Fund, and the Major & Local Street Funds.

The General Fund pays for most of the City's governmental services. The most significant are police and fire, which incurred expenditures of approximately \$1,083,000. These two services are supported by general tax revenues of the City and State Revenue Sharing. In addition, the General Fund expended approximately \$637,000 on Public Works. These two areas represent approximately 61.5% of the General Fund's total expenditures, a decrease of 1.5 percentage points over the previous fiscal year.

General Fund Budgetary Highlights

Over the course of the year, the City amended the budget to take into account events during the year. The total budgeted expenditures for the General Fund were increased by approximately 5.8% during the year. The City's departments overall stayed within the budget, resulting in total expenditures \$5,880 in excess those budgeted for the individual departments, however, on a whole, departments expended a total of \$72,746 less than authorized. Budgeted transfers to other funds also increased by \$235,810 to allow primarily for the transfer of \$250,809 of reserved fund balance of Kane/Jackson deposits in the general fund to reserved fund balance in the Capital Projects Fund. On a whole, the General Fund expended \$474,654 over total revenues. This caused the General Fund's fund balance to decrease from \$1,376,663 a year ago to \$902,009 at June 30, 2007. This decrease was primarily a result of transfers to other funds amounting to \$348,942 and a one-time capital expense for Riverfront Park electrical upgrade of \$51,814. The remaining deficiency was the result of increased personnel costs.

Capital Asset and Debt Administration

At the end of June 30, 2007, the City had \$14,846,464 invested in a broad range of capital assets, including buildings, police and fire equipment, and water and sewer lines. In addition, the City has invested significantly in streets. Streets constructed prior to July 1, 2003, are not reported on the City's financial statements.

CITY OF ALGONAC

Management's Discussion and Analysis

June 30, 2007

Economic Factors and Next Year's Budgets and Rates

The City's budget for the year ending June 30, 2008, calls for no change in property tax rates. Because of the impact of Proposal A, however, the City needs to continue to watch its budget very closely because we anticipate being at the Headlee limit next year which may result in a millage rollback. The state-wide tax reform act limits growth in taxable value on any individual property to the lesser of inflation or 5%. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the City will grow by less than inflation, before considering new property additions.

Due to the State of Michigan's budget problems, the City of Algonac is concerned about State Revenue Sharing funds. Management is also concerned about operating expenses exceeding operating revenues in the General Fund on an ongoing basis. The City must continue the practice of keeping General Fund expenditures in line with available revenues. Whether this can be done while maintaining the current levels of staffing and services, the costs of which we can anticipate, we do not know, because various revenues, particularly those provided by the State of Michigan, have been more volatile and difficult to predict. Should revenues remain stagnant or decrease slightly, the City may be required to engage in further cost cutting measures similar to those in recent years. Also, the City must evaluate and address its existing policy of fully funding events held within the City limits by nonprofit organizations without receiving any reimbursement for costs incurred directly associated for the events.

Water rates remained unchanged for the year ending June 30, 2007; however, the City will be increasing both water and sewer rates next fiscal year. Management is concerned with potential revenue sources for water and sewer debt payments in future years, especially if the City must rollback its millage rate. Should the City face a millage rollback, management would advise the City to shift the current water debt millage to the General Fund and increase the water debt rate levy on utility bills.

Contacting the City Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Treasurer's office.



McBride, Manley & Miiller P.C.

Certified Public Accountants

Marine City, MI (810) 765-4700

Chesterfield, MI (586) 598-4600

INDEPENDENT AUDITORS' REPORT

October 26, 2007

Honorable Mayor and City Council
City of Algonac
805 St. Clair River Drive
Algonac, Michigan 48001

Honorable Members:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Algonac, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Algonac's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Algonac, as of June 30, 2007, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2007, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages i through iv is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Algonac's basic financial statements. The accompanying supplemental information is presented for purposes of additional analysis and is not a required part of the financial statements. The supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully submitted,



McBRIDE, MANLEY & MILLER P.C.
Certified Public Accountants



CITY OF ALGONAC

STATEMENT OF NET ASSETS

June 30, 2007

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Downtown Development Authority
ASSETS				
Current Assets				
Cash - checking and on hand	\$ 691,723	\$ 576,903	\$ 1,268,626	\$ 17,519
- savings and cash equivalent investments	1,012,296	103,324	1,115,620	-
Restricted cash (\$100 nonexpendable)	216,887	424,550	641,437	-
Restricted receivables	-	633,835	633,835	-
Accounts receivable	45,071	303,282	348,353	-
Taxes receivable (net of allowance of \$810)	2,146	-	2,146	-
Due from agency	40	-	40	-
Due from State of Michigan	181,270	-	181,270	-
Due from other units of government	23,887	42,657	66,544	-
Prepaid expenses and other assets	51,934	5,584	57,518	-
Inventory	4,215	-	4,215	-
Total Current Assets	2,229,469	2,090,135	4,319,604	17,519
Other Assets				
Restricted nonexpendable cash	-	28,000	28,000	-
Capital assets, net of accumulated depreciation	3,127,735	11,718,729	14,846,464	-
TOTAL ASSETS	\$ 5,357,204	\$ 13,836,864	\$ 19,194,068	\$ 17,519
LIABILITIES				
Current Liabilities				
Accounts payable	\$ 72,500	\$ 101,929	\$ 174,429	\$ -
Accrued wages and benefits	41,897	6,866	48,763	-
Accrued vacation pay	80,088	19,350	99,438	-
Accrued interest payable	446	26,824	27,270	-
Current portion of long-term obligations	17,243	219,701	236,944	-
Due to other units and taxpayers	15,011	-	15,011	193
Total Current Liabilities	227,185	374,670	601,855	193
Noncurrent Liabilities				
Accrued sick pay	63,728	55,219	118,947	-
Long-term obligations, net of current portion	41,719	3,041,427	3,083,146	-
TOTAL LIABILITIES	\$ 332,632	\$ 3,471,316	\$ 3,803,948	\$ 193
NET ASSETS				
Investment in capital assets, net of related debt	\$ 3,090,837	\$ 8,457,601	\$ 11,548,438	\$ -
Restricted for:				
Police enforcement	9,070	-	9,070	-
Asset replacement	-	770,742	770,742	-
Historical preservation	216,787	-	216,787	-
Highways and streets - Act 51	644,555	-	644,555	-
Unrestricted	1,063,323	1,137,205	2,200,528	17,326
TOTAL NET ASSETS	\$ 5,024,572	\$ 10,365,548	\$ 15,390,120	\$ 17,326



CITY OF ALGONAC

STATEMENT OF ACTIVITIES

For the year ended June 30, 2007

	Program Revenues				Net (Expense) Revenue			Component Units Downtown Development Authority
	Expenses	Charge for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total	
					Governmental Activities	Business-Type Activities		
PRIMARY GOVERNMENT								
Governmental Activities								
Legislative	\$ 17,849	\$ -	\$ -	\$ -	\$ (17,849)	\$ -	\$ (17,649)	
General government	550,439	238,831	13,122	-	(298,486)	-	(298,486)	
Public safety (includes interest of \$5,492)	1,214,109	48,616	13,027	-	(1,152,464)	-	(1,152,464)	
Highways and streets	225,551	12,511	272,501	-	59,461	-	59,461	
Public works	655,305	207,516	-	-	(447,789)	-	(447,789)	
Community and economic development	10,810	4,155	-	-	(6,655)	-	(6,655)	
Recreation and cultural	270,622	36,642	24,909	56,160	(152,691)	-	(152,691)	
Other	160,056	-	-	-	(160,056)	-	(160,056)	
Total Governmental Activities	3,104,741	548,473	323,559	56,180	(2,176,529)	-	(2,176,529)	
Business-type Activities								
Sewer	521,544	531,722	-	-	-	10,178	10,178	
Water	1,069,501	948,152	-	-	-	(121,349)	(121,349)	
Total Business-type Activities	1,591,045	1,479,874	-	-	-	(111,171)	(111,171)	
TOTAL PRIMARY GOVERNMENT	\$ 4,695,786	\$ 2,028,347	\$ 323,559	\$ 56,180	\$ (2,176,529)	\$ (111,171)	\$ (2,267,700)	
COMPONENT UNIT								
Downtown Development Authority	\$ 69,082	\$ -	\$ -	\$ -				\$ (69,082)
TOTAL COMPONENT UNIT	\$ 69,082	\$ -	\$ -	\$ -				(69,082)
GENERAL PURPOSE REVENUES								
Property taxes and payments in lieu of taxes					1,555,156	167,141	1,722,299	53,454
State shared revenues					423,193	-	423,193	-
Investment earnings					126,203	57,468	183,671	880
Gain on sale of assets					8,012	-	8,012	-
Other					20,828	-	20,828	455
TOTAL GENERAL PURPOSE REVENUES					2,133,394	224,609	2,358,003	54,789
CHANGE IN NET ASSETS					(43,135)	113,438	70,303	(14,293)
Net Assets at July 1, 2006					5,067,707	10,252,110	15,319,817	31,619
NET ASSETS AT JUNE 30, 2007					\$ 5,024,572	\$ 10,365,548	\$ 15,390,120	\$ 17,326

See accompanying notes.



CITY OF ALGONAC

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2007

	General	Major Street Fund	Local Street Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash - checking and on hand	\$ 223,306	\$ 188,879	\$ 135,209	\$ 144,329	\$ 691,723
- savings and cash equivalent investments	568,474	206,648	103,324	-	878,446
Restricted cash - (\$100 nonexpendable)	-	-	-	216,887	216,887
Accounts and assessments receivable	39,594	-	-	7,623	47,217
Due from other funds	7,416	-	-	-	7,416
Due from State of Michigan	136,527	32,079	12,664	-	181,270
Due from other units of government	23,887	-	-	-	23,887
Prepaid and other assets	25,307	-	-	-	25,307
Inventory	4,215	-	-	-	4,215
TOTAL ASSETS	\$ 1,028,726	\$ 427,606	\$ 251,197	\$ 368,839	\$ 2,076,368
LIABILITIES					
Accounts payable	\$ 44,343	\$ 23,604	\$ 2,395	\$ 2,058	\$ 72,400
Due to other funds and component units	-	4,851	2,826	-	7,677
Accrued wages and benefits	41,265	511	61	60	41,897
Due to other units and taxpayers	15,011	-	-	-	15,011
Deferred revenue	4,034	-	-	7,623	11,657
Restitution reimbursement payable	22,064	-	-	-	22,064
Non-adjudicated funds	-	-	-	100	100
TOTAL LIABILITIES	126,717	28,966	5,282	9,841	170,806
FUND EQUITY					
Reserved for:					
Historical preservation	-	-	-	216,787	216,787
Inventory and prepaid expenses	29,521	-	-	-	29,521
Police enforcement	-	-	-	9,070	9,070
Special revenue	-	398,640	245,915	-	644,555
Unreserved, undesignated in:					
General fund	872,488	-	-	-	872,488
Special revenue	-	-	-	38,695	38,695
Capital projects funds	-	-	-	94,446	94,446
TOTAL FUND EQUITY	902,009	398,640	245,915	358,998	1,905,562
TOTAL LIABILITIES AND FUND EQUITY	\$ 1,028,726	\$ 427,606	\$ 251,197	\$ 368,839	\$ 2,076,368



CITY OF ALGONAC

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET WITH THE STATEMENT OF NET ASSETS

June 30, 2007

Total Fund Balance - Governmental Funds	\$	1,905,562
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.

Cost of capital assets	\$	6,336,074	
Less: accumulated depreciation		<u>(3,329,416)</u>	
<i>Net Capital Assets</i>			3,006,658

Delinquent personal property taxes receivable and miscellaneous revenues receivable were not available soon enough after year end to pay the current period expenditures and, therefore, are deferred in the governmental funds.

11,657

Prepaid liability insurance is not recorded in the governmental funds.

26,627

Assets of Internal Service Fund are treated as Proprietary Funds in the fund statements and are treated as Governmental Funds in the Statement of Net Assets.

237,985

Long-term liabilities, including loans payable, are not due in the current period and, therefore, are not reported as liabilities in the governmental funds.

Loans payable	\$	19,655	
Accrued interest on loans		446	
Compensated absences		<u>143,816</u>	
<i>Total Long-Term Liabilities</i>			(163,917)

TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES	\$	<u>5,024,572</u>
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CITY OF ALGONAC

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

For the year ended June 30, 2007

	General	Major Street Fund	Local Street Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
Tax collections	\$ 1,500,040	\$ -	\$ -	\$ -	\$ 1,500,040
Payment in lieu of taxes	54,169	-	-	-	54,169
Distributions from State of Michigan	430,820	195,377	77,124	6,180	709,501
Distributions from local governments	24,734	-	-	-	24,734
State drug forfeitures	-	-	-	5,400	5,400
Licenses, permits, fines, and fees	101,038	-	-	-	101,038
Miscellaneous revenue	63,982	-	12,511	10,826	87,319
Donations	13,297	-	-	-	13,297
Garbage collection	207,516	-	-	-	207,516
Interest revenue	87,051	15,457	11,198	9,020	122,726
Administrative charges	149,344	-	-	-	149,344
Intergovernmental reimbursements	20,828	-	-	-	20,828
TOTAL REVENUES	2,652,819	210,834	100,833	31,426	2,995,912
Other Financing Sources:					
Proceeds from note issuance	19,655	-	-	-	19,655
Transfers from other funds	-	-	-	306,577	306,577
TOTAL REVENUES AND OTHER FINANCING SOURCES	2,672,474	210,834	100,833	338,003	3,322,144
Expenditures:					
City council	17,849	-	-	-	17,849
General government	532,102	-	-	-	532,102
Public safety	1,195,598	-	-	-	1,195,598
Public works	637,385	-	-	-	637,385
Planning and economic development	10,810	-	-	-	10,810
Recreation and cultural	285,680	-	-	-	285,680
Insurance	118,762	-	-	-	118,762
Construction	-	24,682	6,612	-	31,294
Routine maintenance	-	15,081	96,970	-	112,051
Bridge maintenance	-	629	3,930	-	4,559
Traffic services	-	5,966	2,956	-	8,922
Winter maintenance	-	9,129	12,937	-	22,066
Other	-	10,853	8,261	43,998	63,112
Capital outlay	-	-	-	59,548	59,548
TOTAL EXPENDITURES	2,798,186	66,340	131,666	103,546	3,099,738
Other Financing Uses:					
Transfers to other funds	348,942	-	-	-	348,942
TOTAL EXPENDITURES AND OTHER FINANCING USES	3,147,128	66,340	131,666	103,546	3,448,680
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER USES	(474,654)	144,494	(30,833)	234,457	(126,536)
Fund Balance at July 1, 2006	1,376,663	254,146	276,748	124,541	2,032,098
FUND BALANCE AT JUNE 30, 2007	\$ 902,009	\$ 398,640	\$ 245,915	\$ 358,998	\$ 1,905,562



CITY OF ALGONAC

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES WITH THE STATEMENT OF ACTIVITIES

June 30, 2007

Total Net Change in Fund Balances - Governmental Funds \$ (126,536)

Capital outlays to purchase or build capital assets are reported in the governmental funds as expenditures. However, for government activities those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. Proceeds from the sale of capital assets are reported as revenue in the governmental funds. For government activities, these proceeds are reduced by the net book value of disposed assets to provide the gain or loss on sale of such assets in the statement of activities.

Capital outlay	\$ 218,724	
Less: depreciation	<u>(220,045)</u>	(1,321)

Delinquent personal property taxes receivable and miscellaneous revenue were not available soon enough after year end to pay the current period expenditures and, therefore, are deferred in the governmental funds. 9,333

Prepaid liability insurance is expensed in the governmental funds. 1,680

Repayment of loan principal is an expenditure, and loan proceeds are revenue in the governmental funds. Proceeds increase and repayments decrease liabilities in the statement of net assets and do not affect the statement of activities.

Loan proceeds		(19,655)
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Changes in net assets of Internal Service Fund are treated as Proprietary Funds in the fund statements and are treated as Governmental Funds in the Statement of Activities. 169,418

Compensated absences are measured by the amount earned in the statement of activities. In the governmental funds, these items are measured by financial resources used. (76,467)

Interest expenditures are recorded when financial resources are used in the governmental funds. Interest expense is recognized as the interest accrues regardless of when it is due in the statement of activities. 413

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ <u>(43,135)</u>
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CITY OF ALGONAC

**STATEMENT OF NET ASSETS -
PROPRIETARY FUNDS**

June 30, 2007

	Business-Type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Sewer Fund	Water Fund	Total Enterprise Funds	Motor Pool Fund
ASSETS				
Current Assets				
Cash - checking and on hand	\$ 274,995	\$ 301,908	\$ 576,903	\$ -
- savings and cash equivalent investments	103,324	-	103,324	133,850
Restricted cash - expendable	127,742	296,808	424,550	-
Accounts and assessments receivable	169,612	133,670	303,282	-
Restricted receivables and deposits - expendable	86,892	546,943	633,835	-
Due from other funds and component unit	-	-	-	301
Due from other units of government	-	42,657	42,657	-
Prepaid expenses and other assets	57	5,527	5,584	-
Total Current Assets	762,622	1,327,513	2,090,135	134,151
Other Assets				
Restricted nonexpendable cash	-	28,000	28,000	-
Capital assets, net of accumulated depreciation	2,505,543	9,213,186	11,718,729	121,077
TOTAL ASSETS	\$ 3,268,165	\$ 10,568,699	\$ 13,836,864	\$ 255,228
LIABILITIES				
Current Liabilities				
Accounts payable	\$ 75,160	\$ 26,769	\$ 101,929	\$ -
Accrued wages and benefits	515	6,351	6,866	-
Accrued vacation pay	-	19,350	19,350	-
Accrued interest	10,280	16,544	26,824	-
Current portion of long-term debt	68,826	150,875	219,701	17,243
Total Current Liabilities	154,781	219,889	374,670	17,243
Noncurrent Liabilities				
Accrued sick pay	-	55,219	55,219	-
Long-term obligations, net of current portion	906,952	2,134,475	3,041,427	-
TOTAL LIABILITIES	\$ 1,061,733	\$ 2,409,583	\$ 3,471,316	\$ 17,243
NET ASSETS				
Investment in capital assets, net of related debt	\$ 1,529,765	\$ 6,927,836	\$ 8,457,601	\$ 103,834
Restricted for:				
Asset replacement - expendable	-	770,742	770,742	-
Unrestricted	676,667	460,538	1,137,205	134,151
TOTAL NET ASSETS	\$ 2,206,432	\$ 8,159,116	\$ 10,365,548	\$ 237,985



CITY OF ALGONAC

STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET ASSETS - PROPRIETARY FUNDS

For the year ended June 30, 2007

	Business-Type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Sewer Fund	Water Fund	Total Enterprise Funds	Motor Pool Fund
Operating Revenues:				
User charges	\$ 482,186	\$ 689,400	\$ 1,171,586	\$ -
Hydrant rental and city usage	-	4,000	4,000	-
Sewer taps and other permits	50	-	50	-
Maintenance charge	-	78,639	78,639	-
Equipment rental	-	-	-	148,856
Asset replacement charges	-	93,129	93,129	-
Other revenue	120	4,747	4,867	-
TOTAL OPERATING REVENUES	482,356	869,915	1,352,271	148,856
Operating Expenses:				
Wages and benefits	35,944	334,716	370,660	-
Plant operation	222,829	-	222,829	-
Administrative charges	54,896	76,054	130,950	-
Depreciation	107,883	250,931	358,814	19,788
Other expenses	56,703	343,975	400,678	-
TOTAL OPERATING EXPENSES	478,255	1,005,676	1,483,931	19,788
NET INCOME (LOSS) FROM OPERATIONS	4,101	(135,761)	(131,660)	129,068
Nonoperating Revenue (Expense):				
Property tax revenue	72,122	95,019	167,141	-
Debt service revenue	49,366	78,237	127,603	-
Interest revenue	25,828	31,640	57,468	3,477
Interest expense and agent fees	(43,289)	(63,825)	(107,114)	(5,492)
Transfers from other funds	-	-	-	42,365
TOTAL NONOPERATING REVENUE (EXPENSES)	104,027	141,071	245,098	40,350
CHANGE IN NET ASSETS	108,128	5,310	113,438	169,418
Net Assets at July 1, 2006	2,098,304	8,153,806	10,252,110	68,567
NET ASSETS AT JUNE 30, 2007	\$ 2,206,432	\$ 8,159,116	\$ 10,365,548	\$ 237,985



CITY OF ALGONAC

**STATEMENT OF CASH FLOWS -
PROPRIETARY FUNDS**

For the year ended June 30, 2007

	Business-Type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Sewer Fund	Water Fund	Total Enterprise Funds	Motor Pool Fund
Cash Flows From Operating Activities:				
Receipts from customers	\$ 411,861	\$ 836,544	\$ 1,248,405	\$ -
Payments to suppliers	(289,837)	(329,264)	(619,101)	-
Payments to employees	(35,945)	(314,816)	(350,761)	-
Receipts from interfund services provided	-	4,000	4,000	148,856
Payments for interfund administrative services	(54,896)	(76,054)	(130,950)	-
Net Cash Provided By Operating Activities	31,183	120,410	151,593	148,856
Cash Flows From Noncapital Financing Activities:				
Payments to other funds	(78,775)	(45,956)	(124,731)	-
Received from other funds	69	92	161	68,743
Net Cash Provided By (Used In) Noncapital Financing Activities	(78,706)	(45,864)	(124,570)	68,743
Cash Flows From Capital and Related Financing Activities:				
Acquisition of capital assets	-	(251,959)	(251,959)	(94,217)
Principal paid on bonds	(65,620)	(146,125)	(211,745)	-
Interest and paying agent fees paid on bonds	(43,981)	(64,873)	(108,854)	(5,492)
Debt service charges	121,488	173,256	294,744	-
Due from other units of government	-	13,094	13,094	-
Payments on lease	-	-	-	(15,960)
Net Cash Provided By (Used In) Capital and Related Financing Activities	11,887	(276,607)	(264,720)	(115,669)
Cash Flows From Investing Activities:				
Interest on investments	25,828	31,640	57,468	3,477
Net Cash Provided By Investing Activities	25,828	31,640	57,468	3,477
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(9,808)	(170,421)	(180,229)	105,407
Cash and Cash Equivalents at July 1, 2006	515,869	797,137	1,313,006	28,443
CASH AND CASH EQUIVALENTS AT JUNE 30, 2007	\$ 506,061	\$ 626,716	\$ 1,132,777	\$ 133,850
Reconciliation of Operating Income (Loss) to Net Cash Provided By Operating Activities:				
Operating income (loss)	\$ 4,101	\$ (135,761)	\$ (131,660)	\$ 129,068
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	107,883	250,931	358,814	19,788
Change in assets and liabilities:				
Accounts receivable	(70,495)	(29,371)	(99,866)	-
Prepaid expenses and other assets	56	1,795	1,851	-
Accounts payable	(10,361)	12,916	2,555	-
Accrued wages and compensated absences	(1)	19,900	19,899	-
Net Cash Provided By Operating Activities	\$ 31,183	\$ 120,410	\$ 151,593	\$ 148,856



CITY OF ALGONAC

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2007

		Retiree Health Trust	Imprest Payroll	Tax Collection Fund
ASSETS				
Cash and cash equivalents	\$	-	\$ 31,587	\$ 101
TOTAL ASSETS	\$	-	\$ 31,587	\$ 101
LIABILITIES				
Due to other funds	\$	-	\$ -	\$ 40
Due to taxpayers and others		-	-	61
Payroll liabilities		-	31,587	-
TOTAL LIABILITIES	\$	-	\$ 31,587	\$ 101
NET ASSETS				
Held in Trust for Benefits	\$	-		



CITY OF ALGONAC

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - FIDUCIARY FUNDS

For the year ended June 30, 2007

	Retiree Health Trust
ADDITIONS	
Contributions:	
Employer	\$ -
Total Contributions	-
Investment Income:	
Interest, dividends, and realized gains	1,088
Total Investment Gain	1,088
TOTAL ADDITIONS	1,088
DEDUCTIONS	
Benefits	69,046
TOTAL DEDUCTIONS	69,046
NET CHANGE	(67,958)
Net Assets at July 1, 2006	67,958
NET ASSETS AT JUNE 30, 2007	\$ -



CITY OF ALGONAC

GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL

For the year ended June 30, 2007

	Budgeted Amounts		Actual	Variance
	Original	Final	Amounts	Favorable (Unfavorable) Final to Actual
Revenues:				
Tax collections	\$ 1,491,948	\$ 1,495,267	\$ 1,500,040	\$ 4,773
Payment in lieu of taxes	52,000	52,000	54,169	2,169
Distributions from State of Michigan	442,028	430,547	430,820	273
Distributions from local governments	19,222	24,733	24,734	1
Licenses, permits, fines, and fees	91,835	90,640	101,038	10,398
Miscellaneous revenue	64,531	64,614	63,982	(632)
Donations	10,600	13,297	13,297	-
Garbage collection	202,600	207,444	207,516	72
Interest revenue	65,500	79,173	87,051	7,878
Administrative charges and other	240,000	162,450	149,344	(13,106)
Intergovernmental reimbursements	16,500	13,773	20,828	7,055
TOTAL REVENUES	2,696,764	2,633,938	2,652,819	18,881
Other Financing Sources:				
Proceeds from note issuance	-	39,155	19,655	(19,500)
Transfers from other funds	-	9,498	-	(9,498)
TOTAL REVENUES AND OTHER FINANCING SOURCES	2,696,764	2,682,591	2,672,474	(10,117)
Expenditures:				
City council	21,700	18,940	17,849	1,091
General Government:				
City manager	88,950	89,227	89,746	(519)
Finance	180,618	187,444	183,125	4,319
Property tax service	3,200	2,165	1,311	854
City clerk	88,230	85,631	84,820	811
General administration	27,250	33,105	32,500	605
Data processing	10,700	64,170	44,116	20,054
Assessing	24,338	30,099	27,844	2,255
Elections	9,750	7,520	7,334	186
Buildings and grounds	51,615	58,154	53,450	4,704
Attorney	15,000	7,275	7,856	(581)
Total General Government	499,651	564,790	532,102	32,688
Public Safety:				
Police	883,860	819,604	817,823	1,781
Fire	243,663	275,513	265,415	10,098
Building inspection department	127,926	118,823	112,360	6,463
Total Public Safety	1,255,449	1,213,940	1,195,598	18,342
Public works	614,666	660,904	637,385	23,519
Planning and economic development	6,900	12,134	10,810	1,324
Recreation and Cultural:				
Parks and recreation	101,925	193,216	194,534	(1,318)
Pool	38,150	72,334	73,991	(1,657)
Community center	22,472	17,717	17,155	562
Total Recreation and Cultural	162,547	283,267	285,680	(2,413)
Insurance and other	151,883	116,957	118,762	(1,805)
TOTAL EXPENDITURES	2,712,796	2,870,932	2,798,186	72,746
Other Financing Uses:				
Transfers to other funds	116,058	351,868	348,942	2,926
TOTAL EXPENDITURES AND OTHER FINANCING USES	2,828,854	3,222,800	3,147,128	75,672
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(132,090)	(540,209)	(474,654)	65,555
Fund Balance at July 1, 2006	1,376,663	1,376,663	1,376,663	-
FUND BALANCE AT JUNE 30, 2007	\$ 1,244,573	\$ 836,454	\$ 902,009	\$ 65,555



CITY OF ALGONAC

MAJOR STREET FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL

For the year ended June 30, 2007

	Budgeted Amounts		Actual	Variance
	Original	Final		Favorable (Unfavorable) Final to Actual
Revenues:				
Distributions from State Motor				
Vehicle Highway Fund	\$ 209,080	\$ 209,080	\$ 195,377	\$ (13,703)
Interest earned	4,500	10,900	15,457	4,557
TOTAL REVENUES	213,580	219,980	210,834	(9,146)
Expenditures:				
Construction	-	1,415	24,682	(23,267)
Routine maintenance	28,358	43,521	15,081	28,440
Bridge maintenance	741	1,784	629	1,155
Traffic services	5,894	6,015	5,966	49
Winter maintenance	18,839	18,681	9,129	9,552
Other functions	21,500	20,500	10,853	9,647
TOTAL EXPENDITURES	75,332	91,916	66,340	25,576
EXCESS OF REVENUES OVER EXPENDITURES	138,248	128,064	144,494	16,430
Fund Balance at July 1, 2006	254,146	254,146	254,146	-
FUND BALANCE AT JUNE 30, 2007	\$ 392,394	\$ 382,210	\$ 398,640	\$ 16,430



CITY OF ALGONAC

LOCAL STREET FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL

For the year ended June 30, 2007

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable) Final to Actual
	Original	Final		
Revenues:				
Distributions from State Motor				
Vehicle Highway Fund	\$ 82,613	\$ 82,613	\$ 77,124	\$ (5,489)
Miscellaneous	13,500	12,565	12,511	(54)
Interest earned	7,600	9,275	11,198	1,923
TOTAL REVENUES	103,713	104,453	100,833	(3,620)
Expenditures:				
Construction	132,500	-	6,612	(6,612)
Routine maintenance	30,289	119,213	96,970	22,243
Bridge maintenance	1,640	5,040	3,930	1,110
Traffic services	5,422	4,269	2,956	1,313
Winter maintenance	21,429	21,429	12,937	8,492
Other functions	9,000	8,261	8,261	-
TOTAL EXPENDITURES	200,280	158,212	131,666	28,546
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(96,567)	(53,759)	(30,833)	22,926
Fund Balance at July 1, 2006	276,748	276,748	276,748	-
FUND BALANCE AT JUNE 30, 2007	\$ 180,181	\$ 222,989	\$ 245,915	\$ 22,926



CITY OF ALGONAC

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF CITY OPERATIONS AND FUND TYPES: The City of Algonac, Michigan, was incorporated December 6, 1967, under the provisions of Act 279, PA 1909, as amended (Home Rule City Act). The City operates under a Council-Manager form of government and provides the following services as authorized by its charter: public safety (police, fire, and inspection), highways and streets, sanitation, community development, culture-recreation, public improvements, planning and zoning, water supply and sewage disposal systems, and general administrative services.

REPORTING ENTITY: The financial reporting entity consists of the primary government of the City of Algonac and its discretely presented component unit. GASB Statement No. 14, as amended by GASB 39, states that the financial reporting entity consists of (a) the primary government; (b) organizations for which the primary government is financially accountable; and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The criteria for determining the financial reporting entity are separately elected governing body, legally separate entity, fiscally independent, ability to appoint voting majority of governing body, ability to impose its will, and potential for benefit or burden. Certain other organizations warrant inclusion as part of the financial reporting entity because of the nature and significance of their relationship with the primary government, including their ongoing financial support of the primary government or its other component units. A legally separate, tax-exempt organization would be reported as a component unit of the reporting entity if all of the following criteria are met:

1. The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.
2. The primary government is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
3. The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government.

Using this criteria, the Downtown Development Authority has been determined to be a discretely presented component unit of the City of Algonac.

JOINT VENTURES: The Downriver Recreation Commission was organized for the purpose of providing community services to include educational, vocational, and recreational aspects for the residents of the City of Algonac, Township of Clay, and the Algonac Community School System. The Commission is dependent upon these entities for its existence as they jointly provide annual financial resources for its operation. The joint venture was made March 25, 1991, pursuant to the Authority granted by the Urban Cooperation Act of 1967, being MCL 124.501 and by Authority granted by MCL 124.531.

The Commission is a separate legal and administrative entity with nine commission members, three each appointed by the City of Algonac, Clay Township, and Algonac Community Schools.

The City of Algonac appropriates funds annually to assist with the day-to-day operations of the Commission. For the year ended June 30, 2007, the City of Algonac appropriated \$40,000. Complete financial statements may be obtained from the administrative offices of the Algonac Middle School, 9185 Marsh Road, Algonac, MI 48001.

RELATED ORGANIZATIONS: The Algonac Housing Authority (AHA), is a related organization as the City Commission appoints the board of the AHA, but is not financially accountable.

There were no related party transactions between the City of Algonac and the Housing Authority for the fiscal year ended June 30, 2007.



CITY OF ALGONAC

NOTES TO FINANCIAL STATEMENTS

(Continued)

June 30, 2007

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION: The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes and other revenues are recognized in the accounting period when they become measurable and available to finance operations. Properties are assessed as of December 31, and the related property taxes are levied on July 1, and become a lien on July 1. These taxes are due on August 31, with a final collection date of February 28, before they are added to the county tax rolls.

Revenues earned and susceptible to accrual are considered available and recognized if received within sixty days after the year end.



CITY OF ALGONAC

NOTES TO FINANCIAL STATEMENTS *(Continued)*

June 30, 2007

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The government reports the following major governmental funds:

GENERAL FUND – This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, protective services, and other intergovernmental revenues.

MAJOR AND LOCAL STREET FUNDS – The Major Street Fund accounts for all financial resources of state gas and weight tax revenues that are restricted for use on major streets. The Local Street Fund accounts for all financial resources of state gas and weight tax revenues that are restricted for use on local streets.

The government reports the following major proprietary funds:

ENTERPRISE FUNDS – The Water Fund and the Sewer Fund report operations that provide services which are financed by user charges or activities where periodic measurements of net income is appropriate for capital maintenance, public policy, management control, or other purposes.

Additionally, the government reports the following fund types:

SPECIAL REVENUE FUNDS – These funds are used to account for specific governmental revenues (other than major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action.

CAPITAL PROJECTS FUND – This fund is used to account for the acquisition or construction of major capital facilities other than those financed by proprietary fund operations and special assessments.

INTERNAL SERVICES FUND – This fund provides fixed assets to other departments on a cost reimbursement basis.

RETIREE HEALTH TRUST – This fund is an agent for health insurance contributions for the City's employees.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned. Residual balances between the business-type activities and the governmental activities are reported as "internal balances."



CITY OF ALGONAC

NOTES TO FINANCIAL STATEMENTS

(Continued)

June 30, 2007

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relate to charges to customers for sales and services. The water and sewer fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private sector standards issued after November 30, 1989, for its business-type activities.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenditures, and expenses during the reporting period. Actual results could differ from those estimates.

ASSETS, LIABILITIES, AND NET ASSETS

BANK DEPOSITS AND INVESTMENTS: Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

RECEIVABLES AND PAYABLES: In general, outstanding balances between funds are reported as "due to/from other funds." All trade and property tax receivables are shown net of allowance for uncollectible amounts, totaling \$810.

INVENTORIES AND PREPAID ITEMS: Inventories are valued at cost, on an average basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

CAPITAL ASSETS: Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Infrastructure assets acquired prior to July 1, 2003, have not been capitalized and are omitted from the Statement of Net Assets.



CITY OF ALGONAC

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2007

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	10-50 years
Utility systems	5-50 years
Machinery and equipment	5-20 years
Vehicles	5-15 years
Infrastructure	10-20 years

CAPITALIZED INTEREST: The City capitalizes interest during the construction phase of proprietary fund assets if financed by revenue bonds. Interest is not capitalized for assets constructed with general obligation debt. There was no interest capitalized for the period.

COMPENSATED ABSENCES: The City accrues the liability for future vacation, sick, and other leave benefits that are attributable to employee services already rendered if this obligation relates to vested obligations, the payment of which is probable and can be reasonably estimated. It is the policy of the City to show unpaid vacation benefits as current, as they are payable within one year.

All vacation and vested sick pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

LONG-TERM OBLIGATIONS: In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent property taxes	\$ 1,893	\$ --
Miscellaneous services	1,461	--
Restitution	680	--
Library reimbursement	7,623	--
	<u>\$11,657</u>	<u>\$ --</u>



CITY OF ALGONAC

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2007

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FUND EQUITY: In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

It is the policy of the City to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS: P.A. 621 of 1978, section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the City's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets, as amended, of the City for these budgetary funds were adopted to the departmental level and are shown in the supplemental schedules to this statement. Budget amendments require approval from a majority of the City Council. Actual expenditures exceeded those budgeted as follows:

<i>General Fund:</i>	
City Manager	\$ 519
Attorney	581
Parks and recreation	1,318
Pool	1,657
Insurance and other	1,805
<i>Major Street Fund:</i>	
Construction	23,267
<i>Local Street Fund:</i>	
Construction	6,612
<i>Downtown Development Authority:</i>	
Community promotion	421



CITY OF ALGONAC

NOTES TO FINANCIAL STATEMENTS

(Continued)

June 30, 2007

NOTE 3: CASH AND INVESTMENTS

Deposits are carried at cost. Deposits are at Michigan banks in the name of the City of Algonac Treasurer. Michigan Act 20 P.A. 1943 allows a city to make various investments with public monies including, but not limited to, the following:

1. Direct bonds and obligations of the U.S., its agencies or instrumentalities
2. Certificates of deposit, savings accounts with banks, savings and loan associations, or credit unions which are insured with the applicable federal agency and located in the State of Michigan
3. Commercial paper - rated within 2 highest rate classifications by at least 2 rating services and matures not later than 270 days
4. U.S. or agency repurchase agreements
5. Mutual funds - investments which local unit can make directly
6. Bankers' acceptances of U.S. banks
7. Obligations of the State of Michigan or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service

Michigan law prohibits security in the form of collateral, surety bonds, or other forms for the deposit of public money. Attorney General's Opinion Number 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan.

The deposits of the City are in accordance with statutory authority.

Deposits and investments are recorded at cost. The carrying amounts are included on the balance sheet as "checking and on hand," "savings and cash equivalent investments," and "restricted cash" as follows:

Cash - checking and on hand	\$1,268,626
- savings and cash equivalent investments	1,115,620
Restricted cash	641,437
Restricted nonexpendable cash	28,000
Fiduciary balance sheet	31,688
	<u>\$3,085,371</u>

CUSTODIAL CREDIT RISK: Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. As of June 30, 2007, \$2,164,348 of the government's bank balance of \$2,563,903 was exposed to custodial credit risk as follows:

<u>Deposits</u>	<u>Insured (FDIC)</u>	<u>Uninsured and Uncollateralized</u>	<u>Carrying Amount</u>	<u>Bank Balance/ Market Value</u>
Demand deposits	\$200,000	\$1,396,926	\$1,509,485	\$1,596,926
Savings and CD's	200,000	766,977	966,977	966,977
Cash on hand	--	445	445	--
	<u>\$400,000</u>	<u>\$2,164,348</u>	<u>2,476,907</u>	<u>\$2,563,903</u>

Investments

Mutual funds -
nonrisk category

608,464

GRAND TOTAL CASH AND INVESTMENTS

\$3,085,371



CITY OF ALGONAC

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2007

NOTE 3: CASH AND INVESTMENTS (Continued)

Other fund mutual fund investments are limited to those under SEC Rule 2a7 or like investment pools. In accordance with GASB Statement No. 31, these are carried at amortized cost for financial reporting purposes.

INTEREST RATE RISK: The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, the City made no investments that have market value risk during the current fiscal year.

CREDIT RISK: State law limits investments as stated above. The City's investment policy does not limit its investment choices beyond the statute. The authority to make investment decisions has been granted to the City Treasurer.

CONCENTRATION OF CREDIT RISK: The City places no limit on the amount the City may invest in any one issuer.

NOTE 4: RESTRICTED ASSETS AND INVESTMENTS

As of June 30, 2007, the City had the following assets restricted for specific purposes:

Capital Projects Fund:

Per donor placed restriction for historical preservation	<u>\$ 216,787</u>
--	-------------------

Drug Law Enforcement Fund:

Drug law enforcement forfeitures	<u>\$ 100</u>
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Sewer Fund:

Cash restricted for debt retirement	127,742
Deposit with St. Clair County for debt retirement	29,861
Deposit with St. Clair County for Waste Water Treatment Plant	42,816
Restricted receivables	<u>14,215</u>
Total Sewer Fund	<u>214,634</u>

Water Fund:

Cash restricted for asset replacement by Clay Township supply agreement	33,750
Cash restricted for debt retirement	38,429
Per ordinance 151 - cash restricted for asset replacement and debt service	252,629
Receivable from Clay Township restricted for asset replacement and debt service	517,770
Deposit with St. Clair County for debt retirement	805
Restricted receivables	<u>28,368</u>
Total Water Fund	<u>871,751</u>
Total Restricted Assets and Investments	<u>\$1,303,272</u>



CITY OF ALGONAC

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2007

NOTE 5: FIXED ASSETS

Governmental Activities Fixed Assets:

A summary of changes in governmental fixed assets follows:

	Balance 6/30/06	Additions	Disposals	Balance 6/30/07
General Government:				
Buildings and improvements	\$ 558,590	\$ --	\$ --	\$ 558,590
Machinery and equipment	54,876	39,155	--	94,031
Land	310,559	--	--	310,559
Public Safety:				
Buildings and improvements	15,699	3,359	--	19,058
Machinery and equipment	115,260	--	--	115,260
Vehicles	1,474,469	94,217	--	1,568,686
Public Works:				
Buildings and improvements	322,392	--	--	322,392
Machinery and equipment	277,044	--	41,835	235,209
Vehicles	216,662	3,398	--	220,060
Recreation and Cultural:				
Buildings and improvements	1,435,961	172,812	--	1,608,773
Machinery and equipment	28,876	--	--	28,876
Infrastructure	116,441	--	--	116,441
Streets:				
Infrastructure	1,284,187	--	--	1,284,187
	6,211,016	312,941	41,835	6,482,122
Accumulated Depreciation	3,156,389	239,833	41,835	3,354,387
	<u>\$3,054,627</u>	<u>\$ 73,108</u>	<u>\$ --</u>	<u>\$3,127,735</u>

The above amounts include land with a cost of \$310,559 not subject to depreciation.

The assets above include assets acquired through capital leases with a cost of \$51,831 and accumulated depreciation of \$15,549.

Governmental activity depreciation, included on the Statement of Activities, was allocated as follows:

General Government	\$ 22,726
Public Safety	63,826
Public Works	23,850
Recreation and Cultural	65,225
Streets	64,206
Total	<u>\$239,833</u>

The above amounts include \$10,366 amortization of capitalized leases.



CITY OF ALGONAC

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2007

NOTE 5: FIXED ASSETS (Continued)

Business-Type Activities Fixed Assets:

	Balance 6/30/06	Additions	Disposals	Balance 6/30/07
Water Fund:				
Water plant, mains, hydrants, and service lines	\$11,912,801	\$251,959	\$ --	\$12,164,760
Machinery and equipment	<u>218,245</u>	<u>--</u>	<u>--</u>	<u>218,245</u>
	<u>12,131,046</u>	<u>251,959</u>	<u>--</u>	<u>12,383,005</u>
Sewer Fund:				
Sewer plants, mains, and service sewers	4,995,462	--	--	4,995,462
Machinery and equipment	<u>79,558</u>	<u>--</u>	<u>--</u>	<u>79,558</u>
	<u>5,075,020</u>	<u>--</u>	<u>--</u>	<u>5,075,020</u>
Total Capital Assets	17,206,066	251,959	--	17,458,025
Accumulated Depreciation	<u>5,380,482</u>	<u>358,814</u>	<u>--</u>	<u>5,739,296</u>
	<u>\$11,825,584</u>	<u>(\$106,855)</u>	<u>\$ --</u>	<u>\$11,718,729</u>

Depreciation for the Water Fund and Sewer Fund totaled \$250,931 and \$107,883, respectively, for the year ended June 30, 2007.

NOTE 6: LONG-TERM DEBT

Changes in Indebtedness by Type:

	Payable at June 30, 2006	Increase	Decrease	Payable at June 30, 2007
General Obligation:				
General obligation bonds	\$1,041,398	\$ --	\$ 65,620	\$ 975,778
Software note	--	39,155	19,500	19,655
Police car leases	33,203	--	15,960	17,243
Restitution reimbursement payable	32,564	--	10,500	22,064
Accrued sick pay	<u>113,157</u>	<u>5,790</u>	<u>--</u>	<u>118,947</u>
Total General Obligation	1,220,322	44,945	111,580	1,153,687
Drinking Water Revolving Fund				
Bonds	2,201,475	--	133,125	2,068,350
Revenue Bonds	<u>230,000</u>	<u>--</u>	<u>13,000</u>	<u>217,000</u>
Total Indebtedness	<u>\$3,651,797</u>	<u>\$44,945</u>	<u>\$257,705</u>	<u>\$3,439,037</u>



CITY OF ALGONAC

NOTES TO FINANCIAL STATEMENTS

(Continued)

June 30, 2007

NOTE 6: LONG-TERM DEBT (Continued)

Changes in Indebtedness by Fund:

Total Water and Sewer Fund				
Indebtedness	\$3,526,245	\$ 1,847	\$211,745	\$3,316,347
Total Governmental				
Indebtedness	125,552	43,098	45,960	122,690
Total Indebtedness	<u>\$3,651,797</u>	<u>\$44,945</u>	<u>\$257,705</u>	<u>\$3,439,037</u>

Significant details regarding outstanding long-term liabilities are presented below:

Revenue Bonds:

Water Supply System Revenue Series II Bond, dated May 1, 1979, due in annual installments ranging from \$8,000 to \$24,000 through March 1, 2019, with interest of 5%, payable semi-annually.

\$ 217,000

Water Supply and Sewage Disposal System – Contracts Payable:

St. Clair County has issued three General Obligation Bonds for the purpose of expanding the systems and treatment facilities in the City of Algonac.

Pursuant to provisions of Act 185, Public Acts of Michigan, 1957, as amended, the City of Algonac and other applicable municipalities and the County of St. Clair have entered into contracts whereby the City has agreed to pay the County annual installments to retire the City's portion of the various bond issues, plus interest. In order to pay such amounts to the County, the City and other applicable municipalities are obligated, to the extent necessary, to levy ad valorem taxes without limitation as to the rate or amount on all taxable property. It is the intention of the City Council to pay the City's portion of the obligation from tax levies, debt retirement charges and operating revenue. The contract payables recorded in the Enterprise Fund (Water and Sewer Fund) are comprised of the following:

The City of Algonac upgraded and made various improvements to its Water Filtration Plant. In order to finance the cost of the improvements the St. Clair County Department of Public Works has participated in the Drinking Water Revolving Fund through which the Department of Environmental Quality Bonds have been sold in the amount of \$7,830,600. Through contracts with the City of Algonac and Clay Township, the City is required to repay 37.5% of the loan including interest at 2.50%. As of June 30, 2007, the outstanding loan at the County is \$5,515,600.

\$2,068,350

General obligation bonds, dated November 1, 1999, in the amount of \$2,160,000 were sold for the purpose of constructing improvements and new pump stations for the St. Clair County Sewage Disposal System No. 1, which services the City of Algonac, the Township of Clay, and the Township of Ira. The City of Algonac (17.06%), Clay Township (43.28%), and Ira Township (39.66%), repay their respective share of principle and interest. The City of Algonac share ranges from \$30,708 to \$40,091 through April 1, 2012, plus interest ranging from 5.0 to 5.125%, payable semi-annually.

\$ 192,778



CITY OF ALGONAC

NOTES TO FINANCIAL STATEMENTS

(Continued)

June 30, 2007

NOTE 6: LONG-TERM DEBT (Continued)

Water Supply and Sewage Disposal System – Contracts Payable: (Continued)

\$3,000,000 were sold for the purpose of paying costs of construction of sewage disposal system improvements to service the City of Algonac, the Township of Clay, and the Township of Ira. The City of Algonac (30.00%), Clay Township (35.00%), and Ira Township (35.00%) repay their respective share of principle and interest. The City of Algonac share ranges from \$28,500 to \$69,000 through April 1, 2023, plus interest ranging from 3.375% to 4.6%, payable semi-annually.

\$ 783,000

Other Obligations:

Restitution reimbursement payable represents an amount due from a lawsuit in which the City prevailed. The City's insurance company has reimbursed the City for the amount awarded in the lawsuit. As the City receives restitution, the City reimburses the insurance company. The balance represents the amount of restitution to be paid to the insurance company.

\$ 22,064

\$3,283,192

The following is a summary of indebtedness and annual principal and interest requirements:

Summary of Indebtedness:

	<u>Number of Issues</u>	<u>Interest Rate</u>	<u>Maturing Through</u>	<u>Principal Outstanding</u>
General Obligations:				
2003 Limited Tax Bonds	1	3.375-4.600%	2023	\$ 783,000
1999 Limited Tax Bonds	1	5.000-5.125	2012	192,778
Software note payable	N/A	N/A	2009	19,655
Police car leases	2	8.027-8.040	2008	17,243
Restitution Reimbursement payable	N/A	N/A	N/A	22,064
Accrued sick pay	N/A	N/A	N/A	118,947
Total General Obligations				<u>\$1,153,687</u>
Revenue Bonds – Water Supply System	1	5.00	2019	<u>\$ 217,000</u>
Drinking Water Revolving Fund Bonds	1	2.50	2020	<u>\$2,068,350</u>

Police Car Leases: These leases are capital leases. Interest has been imputed at the rate of 8.027-8.040% per annum. These leases have been included in "Summary of Principal and Interest Requirements" below, under General Obligations. Future minimum lease payments are as follows:

<u>Date of Lease</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Payable In Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Imputed Interest</u>	<u>Future Minimum Lease Payments</u>
2/10/06 and 3/27/06	\$51,831	8.027-8.040%	2008	<u>\$17,243</u>	<u>\$1,385</u>	<u>\$18,628</u>



CITY OF ALGONAC

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2007

NOTE 6: LONG-TERM DEBT (Continued)

Annual lease payments of \$9,314 are due each February 10 and March 27. The interest expense for these leases is reflected in the public safety function in the Statement of Activities.

Software Note Payable: This note represents an amount due for the purchase of software. This note in the amount of \$19,655 has no stated interest rate and includes a deferred payment option which is payable in fiscal year ended June 30, 2009.

Summary of Principal and Interest Requirements:

	Year Ending June 30				
	2008	2009	2010	2011	2012
General Obligations	\$161,136	\$129,901	\$110,401	\$109,550	\$109,184
Revenue Bonds	24,850	25,150	25,400	25,600	25,750
Drinking Water Revolving Fund					
Bonds	<u>186,873</u>	<u>187,154</u>	<u>187,342</u>	<u>185,584</u>	<u>185,631</u>
Total Principal and					
Interest Requirements	<u>\$372,859</u>	<u>\$342,205</u>	<u>\$323,143</u>	<u>\$320,734</u>	<u>\$320,565</u>
	2013-2017	2018-2022	2023	Total	
General Obligations	\$ 341,293	\$356,550	\$72,175	\$1,390,190	
Revenue Bonds	129,250	34,000	--	290,000	
Drinking Water Revolving Fund					
Bonds	<u>930,989</u>	<u>558,778</u>	<u>--</u>	<u>2,422,351</u>	
Total Principal and					
Interest Requirements	<u>\$1,401,532</u>	<u>\$949,328</u>	<u>\$72,175</u>	<u>\$4,102,541</u>	

Complete details of bonded indebtedness are found on pages 37 through 39.

Interest expense for the year was as follows:

Motor Pool Fund	\$ 5,492
Water and Sewer Funds	<u>107,114</u>
	<u>\$112,606</u>

Debt Margin:

Michigan Compiled Law limits indebtedness incurred by cities to 10% of the total state equalized valuation of the city. For the fiscal year 06/07, the state equalized value of the City of Algonac was \$145,958,954; therefore, the legal debt margin is \$14,595,895.



CITY OF ALGONAC

NOTES TO FINANCIAL STATEMENTS

(Continued)

June 30, 2007

NOTE 7: INTERFUND/COMPONENT UNIT RECEIVABLES AND PAYABLES

During the course of operations, numerous transactions occur between individual funds and component units for goods provided or services rendered. These receivables and payables are classified as "Due from other funds/component units" or "Due to other funds/component units" on the balance sheet. The amounts of interfund/component units receivables and payables are as follows:

<u>Fund/Component Unit</u>	<u>Receivable</u>	<u>Fund/Component Unit</u>	<u>Payable</u>
		Major Street Fund	\$4,563
		Local Street Fund	2,813
		Current Tax Fund	40
General Fund	<u>\$7,416</u>		<u>\$7,416</u>
		Major Street Fund	\$ 288
		Local Street Fund	13
Motor Pool Fund	<u>\$ 301</u>		<u>\$ 301</u>

The outstanding balances between funds result mainly from timing differences between the dates that interfund goods and services are provided and the date that payments between the funds are made.

The amounts payable to the General Fund from the Major and Local Street Funds are for administrative charges and fringe benefit reimbursements.

The amounts payable to the General Fund from the Current Tax Fund are for interest earned on the Tax Fund bank account.

The amounts payable to the Motor Pool Fund from the Major and Local Street Funds are for equipment rental charges.

NOTE 8: FUND BALANCE/RETAINED EARNINGS RESERVATIONS, DESIGNATIONS, AND RESTRICTIONS

Water Fund:

Cash restricted for asset replacement	\$ 33,750
Per ordinance 151 – cash and receivables restricted for asset replacement	218,417
Amount receivable from Clay Township for asset replacement	517,770
Deposit with St. Clair County – Water construction	805
Total Water Fund Restricted Retained Earnings	<u>\$770,742</u>

General Fund:

Reserved for inventory and prepaid expense	<u>\$ 29,521</u>
--	------------------

Capital Projects Fund:

Cash reserved for historical preservation per donor	<u>\$216,787</u>
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Drug Law Enforcement Fund:

Reserved for police enforcement	<u>\$ 9,070</u>
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CITY OF ALGONAC

NOTES TO FINANCIAL STATEMENTS

(Continued)

June 30, 2007

NOTE 9: RISK FINANCING

The City of Algonac purchases insurance coverage from independent third parties and is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by insurance purchased from independent third parties. Settled claims from these risks have not exceeded insurance coverage during the year.

NOTE 10: EMPLOYEE PENSION PLAN

PLAN DESCRIPTION

The City of Algonac participates in the Michigan Municipal Employees Retirement System (MERS); an agent multiple employer state-wide, public employee defined benefit pension plan created under Public Act 135 of 1945, and now operates under Public Act 220 of 1996, and the MERS Plan Document as revised. MERS was established to provide retirement, survivor and disability benefits on voluntary basis to the State of Michigan's local government employees. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

FUNDING POLICY

The City is required to contribute at an actuarially determined rate. The computed employer contribution rate for 2007 ranged from 5.40% to 10.47%. The contribution requirements of plan members and the City are established and may be amended by the City Council, depending on the MERS contribution program adopted by the City.

ANNUAL PENSION COSTS

For the year ended June 30, 2007, the City's annual pension cost of \$90,176 for MERS was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2006, actuarial valuation using the entry age normal cost method. The actuarial assumptions include (a) a rate of return on the investment of present and future assets of 8% per year compounded annually, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0% to 8.4% per year, depending on age, attributable to seniority/merit, and (d) the assumption that benefits will increase 2.5% per year (annually) after retirement, for persons under Benefit E-1 or E-2. The actuarial value of MERS assets was determined using techniques on a basis of evaluation method that assumes the funds earn the expected rate of return (8%) and includes as an adjustment to reflect market value. Unfunded actuarial accrued liabilities are amortized as a level percent of payroll over a period of 30 years.

Three Year Trend Information

<u>Fiscal Year</u> <u>Ending</u> <u>June 30</u>	<u>Annual Pension</u> <u>Costs (APC)</u>	<u>Percentage</u> <u>of APC</u> <u>Contribution</u>	<u>Net Pension</u> <u>Obligation</u>
2005	\$ 83,299	100%	\$ --
2006	142,529	100	--
2007	90,176	100	--



CITY OF ALGONAC

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2007

NOTE 10: EMPLOYEE PENSION PLAN (Continued)

Schedule of Funding Progress

Valuation Date	Actuarial Value of Assets (a)	Unfunded Actuarial Accrued Liability (AAL) Entry Age (b)	(Overfunded) Accrued Liability (UAAL) (b-a)	Funded Ratio (AAL) (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a)/(c)
2003	\$2,332,706	\$2,802,226	\$469,520	83%	\$1,295,468	36%
2004	2,629,079	3,120,202	491,123	84	1,262,770	39
2005	2,904,983	3,438,326	533,343	84	1,202,466	44
2006	3,220,295	3,714,689	494,394	87	1,202,176	41

NOTE 11: DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with IRC Section 457. The plan available to all employees, permits them to defer a portion of their current salary until future years.

All amounts of compensation deferred under the plan, all property and rights purchased with such amounts, and all income attributable to such amounts, property, or rights are held in trust for the exclusive benefit of participants and their beneficiaries.

It is the opinion of the City that the City has no liability for losses under the plan, but does have the duty of care that would be required of an ordinary prudent investor.

NOTE 12: WORKING CAPITAL

The Sewer and Water Funds have working capital balances of \$607,841 and \$1,107,624, respectively, at June 30, 2007.

NOTE 13: POSTRETIREMENT HEALTH CARE BENEFITS

The City has agreed to provide postretirement hospitalization insurance to all of its employees as follows. The City's obligations for these benefits are established by labor contracts. Currently, under these contracts, the City is responsible for 40% of the cost of these benefits for employees with 30 years of service. The City has established a Retiree Health Trust Fund, and has funded the Retiree's Health Insurance on a pay-as-you-go basis. This plan covers approximately 27 members. Contributions for the year were \$100,000. There are currently no participants receiving benefits.

During the fiscal year ended June 30, 2007, the administration of the Retiree Health Trust Fund was transferred to the Municipal Employees' Retirement System of Michigan. The contributions to the plan amounted to \$90,176 for the period ended June 30, 2007. Other information regarding funding status is currently unavailable. This is a new plan and the City has yet to develop an actuarial study for the plan. An actuarial study will be forthcoming in future periods.



CITY OF ALGONAC

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2007

NOTE 14: INTERFUND AND COMPONENT UNIT TRANSFERS

<u>Transfers In</u>		<u>Transfers Out</u>	
Capital Projects Fund	\$250,809		
Motor Pool Fund	42,365		
Drug Law Enforcement Fund	3,505		
Library Fund	<u>52,263</u>		
	<u>\$348,942</u>	General Fund	<u>\$348,942</u>

The above transfers were made to provide various permissible interfund subsidies and reimbursements.

The transfers from the General Fund to the Capital Projects Fund were to move funds reserved for historical preservation and to subsidize specific projects.

The transfer from the General Fund to the Motor Pool Fund was to subsidize various budgeted expenses.

The transfer from the General Fund to the Drug Law Enforcement Fund was to establish an account for this fund.

The transfers from the General Fund to the Library Fund were to establish this fund and to subsidize various budgeted expenses.

NOTE 15: SEWAGE DISPOSAL SYSTEM AGREEMENT

In accordance with an agreement signed November 1976, the County acquired legal ownership of the City of Algonac Sewage Disposal System and, as of July 14, 1977, assumed responsibility for administering, operating, and maintaining the system. The City has agreed to pay the County charges sufficient to provide from the City's share of expenses incurred by the County and to provide for future maintenance, repairs, and replacement.



SUPPLEMENTAL INFORMATION

CITY OF ALGONAC

COMBINING BALANCE SHEET NON-MAJOR GOVERNMENTAL FUNDS

For the year ended June 30, 2007

	Capital Projects Funds		Special Revenue Funds		Total Non-Major Funds
	Capital Projects	Sidewalk Construction	Drug Law Enforcement	Library	
ASSETS					
Cash - checking and on hand	\$ 686	\$ 95,818	\$ 9,070	\$ 38,755	\$ 144,329
Restricted cash	216,787	-	100	-	216,887
Accounts receivable	-	-	-	7,623	7,623
TOTAL ASSETS	\$ 217,473	\$ 95,818	\$ 9,170	\$ 46,378	\$ 368,839
LIABILITIES AND FUND BALANCE					
<i>Liabilities:</i>					
Accounts payable	\$ -	\$ 2,058	\$ -	\$ -	\$ 2,058
Accrued wages and benefits	-	-	-	60	60
Deferred revenue	-	-	-	7,623	7,623
Non-adjudicated funds	-	-	100	-	100
TOTAL LIABILITIES	-	2,058	100	7,683	9,841
<i>Fund Balance:</i>					
Reserved for police enforcement	-	-	9,070	-	9,070
Reserved for historical preservation	216,787	-	-	-	216,787
Unreserved	686	93,760	-	38,695	133,141
TOTAL FUND EQUITY	217,473	93,760	9,070	38,695	358,998
TOTAL LIABILITIES AND FUND BALANCE	\$ 217,473	\$ 95,818	\$ 9,170	\$ 46,378	\$ 368,839



CITY OF ALGONAC

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES NON-MAJOR GOVERNMENTAL FUNDS

For the year ended June 30, 2007

	Capital Projects Funds		Special Revenue Funds		Total Non-Major Funds
	Capital Projects	Sidewalk Construction	Drug Law Enforcement	Library	
Revenues:					
State grant	\$ 6,180	\$ -	\$ -	\$ -	\$ 6,180
Interest income	2,235	4,842	165	1,778	9,020
Miscellaneous income	-	-	-	10,826	10,826
State drug forfeitures	-	-	5,400	-	5,400
TOTAL REVENUES	8,415	4,842	5,565	12,604	31,426
Other Financing Sources:					
Transfers from other funds	250,809	-	3,505	52,263	306,577
TOTAL REVENUES AND OTHER FINANCING SOURCES	259,224	4,842	9,070	64,867	338,003
Expenditures:					
Wages and benefits	-	-	-	3,363	3,363
Supplies	-	-	-	2,294	2,294
Repair and maintenance	6,180	-	-	6,383	12,563
Professional services	-	11,646	-	2,604	14,250
Utilities	-	-	-	9,628	9,628
Miscellaneous	-	-	-	1,900	1,900
Capital outlay	59,548	-	-	-	59,548
TOTAL EXPENDITURES	65,728	11,646	-	26,172	103,546
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	193,496	(6,804)	9,070	38,695	234,457
Fund Balances at July 1, 2006	23,977	100,564	-	-	124,541
FUND BALANCES AT JUNE 30, 2007	\$ 217,473	\$ 93,760	\$ 9,070	\$ 38,695	\$ 358,998



CITY OF ALGONAC

COMPONENT UNIT

SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL

For the year ended June 30, 2007

	Budget	Actual	Variance Favorable (Unfav.)
DOWNTOWN DEVELOPMENT AUTHORITY			
Revenues:			
Property taxes	\$ 53,546	\$ 53,454	\$ (92)
Interest	700	880	180
Miscellaneous income	500	455	(45)
TOTAL REVENUES	54,746	54,789	43
Expenditures:			
Professional services	11,977	10,122	1,855
Community promotion	4,408	4,829	(421)
Miscellaneous	8,897	4,131	4,766
Capital outlay	50,000	50,000	-
TOTAL EXPENDITURES	75,282	69,082	6,200
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ (20,536)	\$ (14,293)	\$ 6,243



CITY OF ALGONAC**SCHEDULE OF INDEBTEDNESS**

June 30, 2007

St. Clair County Sewage Disposal System No. 1 City of Algonac Bonds - Series 2003:

Date of Issue	Amount of Issue	Interest Rate	Payable In Fiscal Year Ended June 30	Principal	Interest	Total
3-1-03	\$ 900,000	3.375 %	2008	\$ 33,000	\$ 31,379	\$ 64,379
		3.400	2009	34,500	30,266	64,766
		3.450	2010	36,000	29,092	65,092
		3.500	2011	37,500	27,850	65,350
		3.500	2012	40,500	26,538	67,038
		3.650	2013	42,000	25,120	67,120
		3.800	2014	45,000	23,587	68,587
		3.900	2015	46,500	21,878	68,378
		4.000	2016	48,000	20,064	68,064
		4.000	2017	51,000	18,144	69,144
		4.100	2018	54,000	16,104	70,104
		4.200	2019	57,000	13,890	70,890
		4.300	2020	60,000	11,496	71,496
		4.400	2021	63,000	8,916	71,916
		4.500	2022	66,000	6,144	72,144
		4.600	2023	69,000	3,175	72,175
Total Sewer Disposal System 2003 Bonds				783,000	\$ 313,643	\$ 1,096,643

Principal due April 1

Interest due April 1 and October 1

St. Clair County Sewage Disposal System No. 1 City of Algonac Bonds - Series 1999:

Date of Issue	Amount of Issue	Interest Rate	Payable In Fiscal Year Ending June 30	Principal	Interest	Total
11-1-99	\$ 368,496	5.000 %	2008	\$ 35,826	\$ 9,739	\$ 45,565
		5.000	2009	37,532	7,948	45,480
		5.000	2010	39,238	6,071	45,309
		5.125	2011	40,091	4,109	44,200
		5.125	2012	40,091	2,055	42,146
Total Sewer Disposal System 1999 Bonds				192,778	\$ 29,922	\$ 222,700

Principal due April 1

Interest due April 1 and October 1



CITY OF ALGONAC**SCHEDULE OF INDEBTEDNESS***(Continued)*

June 30, 2007

Water Supply System City of Algonac Bonds - Series 1979:

Date of Issue	Amount of Issue	Interest Rate	Payable In Fiscal Year Ending June 30	Principal	Interest	Total
8-6-79	\$ 410,000	5.000 %	2008	\$ 14,000	\$ 10,850	\$ 24,850
		5.000	2009	15,000	10,150	25,150
		5.000	2010	16,000	9,400	25,400
		5.000	2011	17,000	8,600	25,600
		5.000	2012	18,000	7,750	25,750
		5.000	2013	19,000	6,850	25,850
		5.000	2014	20,000	5,900	25,900
		5.000	2015	21,000	4,900	25,900
		5.000	2016	22,000	3,850	25,850
		5.000	2017	23,000	2,750	25,750
		5.000	2018	24,000	1,600	25,600
		5.000	2019	8,000	400	8,400
Total Water Supply System 1979 Bonds				217,000	\$ 73,000	\$ 290,000

Principal due March 1

Interest due March 1 and September 1

Drinking Water Filtration System City of Algonac Bonds -Series 1998:

Date of Issue	Amount of Issue	Interest Rate	Payable In Fiscal Year Ending June 30	Principal	Interest	Total
9-29-98	\$ 7,830,600	2.50 %	2008	\$ 136,875	\$ 49,998	\$ 186,873
		2.50	2009	140,625	46,529	187,154
		2.50	2010	144,375	42,967	187,342
		2.50	2011	146,250	39,334	185,584
		2.50	2012	150,000	35,631	185,631
		2.50	2013	153,750	31,834	185,584
		2.50	2014	157,500	27,943	185,443
		2.50	2015	163,125	23,935	187,060
		2.50	2016	166,875	19,810	186,685
		2.50	2017	170,625	15,592	186,217
		2.50	2018	174,375	11,279	185,654
		2.50	2019	180,000	6,849	186,849
		2.50	2020	183,975	2,300	186,275
Total Drinking Water System 1998 Bonds				2,068,350	\$ 354,001	\$ 2,422,351

Principal due April 1

Interest due April 1 and October 1

Total Bonded Indebtedness	3,261,128
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CITY OF ALGONAC

SCHEDULE OF INDEBTEDNESS (Continued)

June 30, 2007

Police Car Capitalized Leases:

Date of Lease	Amount	Interest Rate	Payable In Fiscal Year Ended June 30	Principal	Interest	Total
2-10-06	\$ 25,917	8.03%	2008	\$ 8,622	\$ 692	\$ 9,314
Annual payments due each February 10 in the amount of \$9,314				8,622	692	9,314

Date of Lease	Amount	Interest Rate	Payable In Fiscal Year Ended June 30	Principal	Interest	Total
3-27-06	\$ 25,914	8.04%	2008	\$ 8,621	\$ 693	\$ 9,314
Annual payments due each March 27 in the amount of \$9,314				8,621	693	9,314
Total Leases				17,243		

Restitution Reimbursement Payable:

Amount	Interest Rate	Payable In Fiscal Year Ended June 30	Principal	Interest	Total
\$ 22,064	--	as collected	\$ 22,064	\$ --	\$ 22,064

Software Note Payable:

Amount	Interest Rate	Payable In Fiscal Year Ended June 30	Principal	Interest	Total
\$ 19,655	--	2009	\$ 19,655	\$ --	\$ 19,655
TOTAL INDEBTEDNESS			\$ 3,320,090		



CITY OF ALGONAC

SCHEDULE OF CODE ENFORCEMENT ALLOCATION PURSUANT TO PUBLIC ACT 245 OF 1999

For the year ended June 30, 2007

Code Enforcement Revenues:

Building	\$ 5,826
Electrical	4,145
Mechanical	5,793
Plumbing	2,580
Rental inspections	7,200
	<u>25,544</u>

Building department expenditures	(112,360)
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**NET EXCESS OF EXPENDITURES OVER REVENUES FOR
CODE ENFORCEMENT AT JUNE 30, 2007**

\$ (86,816)





McBride, Manley & Miiller P.C.

Certified Public Accountants

Marine City, MI (810) 765-4700

Chesterfield, MI (586) 598-4600

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

October 26, 2007

To the City Council
City of Algonac
805 St. Clair River Drive
Algonac, Michigan 48001

Honorable Members:

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Algonac, as of and for the year ended June 30, 2007, which collectively comprise the City of Algonac's basic financial statements and have issued our report thereon dated October 26, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Algonac's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Algonac's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Algonac's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Algonac's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Algonac's financial statements that is more than inconsequential will not be prevented or detected by the City of Algonac's internal control. We consider the deficiency described below to be a significant deficiency in internal control over financial reporting.

Deficiency:

The City's finance staff has not yet developed the requisite expertise required to assure that the City's financial presentations are in accordance with generally accepted accounting principles without the assistance of the City's auditors. This is primarily a result of inexperience in practice, and has improved significantly over the past year. However, as of the date of our examination, the staff had not yet developed sufficiently to reasonably assure that a material misstatement could not occur and remain undetected without the assistance of the City's outside auditors.

Management's Response:

During the year, the City installed a new accounting software package, and at June 30, 2007, some of the postings associated with this program were as yet untested. This resulted in some year end postings that were not attributed to the correct fiscal year. These problems and procedures are being addressed as issues arise. In addition, the City's accounting personnel are obtaining additional training and gaining more experience in these areas. Management feels that the findings noted are being adequately addressed and that significant progress has been made in this area.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Algonac's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We believe that the significant deficiency described above is a material weakness.

Compliance and Other Matters

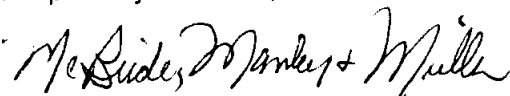
As part of obtaining reasonable assurance about whether City of Algonac's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described above.

We noted certain matters that we reported to management of City of Algonac, in a separate letter dated October 26, 2007.

The City of Algonac's response to the findings identified in our audit follows the deficiency noted above. We did not audit City of Algonac's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the audit committee, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,


McBRIDE, MANLEY & MILLER P.C.
Certified Public Accountants



McBride, Manley & Müller P.C.

Certified Public Accountants

Marine City, MI (810) 765-4700

Chesterfield, MI (586) 598-4600

October 26, 2007

Honorable Mayor and City Council
City of Algonac
Algonac, Michigan 48001

Honorable Members:

We have examined the financial statements of the City of Algonac for the year ended June 30, 2007, and have issued our report thereon dated October 26, 2007. Our examination included a study and evaluation of internal control to the extent we considered necessary in order to establish a basis for reliance on the accounting records. The following areas of internal accounting control could be improved, and we feel they warrant your consideration.

PERMITS

During our testing, we discovered that the correct amount was not charged per the fee schedule for a permit that was issued. It is important that the applicable fee schedule be followed for all permits issued. We suggest that care be taken to properly calculate all permit fees.

WATER AND SEWER BILLING

During our examination, we noted one instance where a customer was not billed for the meter size that was stated in the system. The correct meter size and charge should be entered for all customers. We recommend that the system be reviewed to assure that customers are being charged the proper rates for each meter size.

PAYROLL

During our audit, we noted one instance of a time sheet that was not signed by the supervisor. It is important that proper authorization of time sheets be verified by the department supervisor prior to submission for payment.

We also noted that the City did not have a written policy regarding the salary paid to inspectors. A written policy for all pay rates should be maintained. The City has adopted a policy that addresses the pay rates of all City workers.

CASH RECEIPTS

During our examination, we found that some sequentially numbered receipts could not be accounted for. The City was able to produce a report of these missing receipt numbers; however, no explanation was available as to the reason these receipts were not used. The client is aware of this issue and has implemented procedures to insure that an explanation is present for all receipt numbers.

ACCOUNTS PAYABLE

During our audit, we found that the City had not properly recorded the outstanding payables at year end. The City is aware of the proper procedure for recording payables and has corrected this issue.

ITEMS FROM PREVIOUS LETTER

PURCHASES

During our examination, we discovered items where there was no evidence indicating merchandise receipt, no verification that invoices were footed or extended for mathematical accuracy, and no evidence indicating payment approval. There was one instance where expenses were not posted to the appropriate accounts within a department. We suggest the City implement procedures that will provide evidence of merchandise receipt, verify mathematical accuracy of invoices, and provide evidence of payment approval. Also, care should be taken to post amounts to the correct expense accounts.

OTHER

We noted a significant improvement in the accuracy and completeness of the City's records during the year. The City has also taken measures to enhance its controls by realigning duties to achieve a more appropriate segregation of functions.

CONCLUSION

This report is intended solely for the information and use of the City Council, management, and others within the City. The restriction is not intended to limit the distribution of this report which is a matter of public record.

We would like to express our appreciation and thanks to the City officials and employees for their cooperation and many courtesies extended to us during our examination. We will be available to discuss these recommendations in detail or to assist in their implementations.

Respectfully submitted,



McBRIDE, MANLEY & MILLER P.C.
Certified Public Accountants

